

BUSINESS SITUATION

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ACCORDING to the “preliminary” estimates of the national income and product accounts (NIPA’s), real gross domestic product (GDP) increased 4.8 percent in the second quarter of 1996 (table 1 and chart 1); the “advance” estimate of real GDP, reported in the August “Business Situation,” had shown a 4.2-percent increase.¹ The upward revision was more than accounted for by upward revisions to net exports and to nonresidential fixed investment.

The change in real final sales of domestic product was revised up to a 4.3-percent increase from the 3.5-percent increase reported a month ago. (The sources of the revisions are discussed in the “Revisions” section.)

The price index for gross domestic purchases increased 2.1 percent, 0.1 percentage point more than reported a month ago.

1. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1995		1996	
	1996		1995			III		I	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	6,894.5	62.9	4.3	33.6	80.2	3.8	0.3	2.0	4.8
Less: Exports of goods and services	816.2	19.8	20.1	3.6	9.5	10.7	10.7	1.8	4.8
Plus: Imports of goods and services	931.4	-1	3.5	22.7	20.7	0	1.6	10.6	9.4
Equals: Gross domestic purchases	7,005.5	43.9	-11.9	51.7	90.9	2.6	-7	3.0	5.4
Less: Change in business inventories	7.2	2.5	-18.4	-17.6	10.2	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	6,997.4	39.8	6.7	69.1	81.9	2.4	.4	4.1	4.8
Personal consumption expenditures	4,688.1	27.4	12.1	39.7	39.0	2.4	1.1	3.5	3.4
Nonresidential fixed investment	750.9	8.5	4.3	20.2	7.4	4.9	2.5	11.6	4.0
Residential investment	281.3	5.7	4.1	4.8	10.2	9.2	6.4	7.4	15.9
Government consumption expenditures and gross investment	1,279.8	-1.7	-13.8	5.1	25.1	-6	-4.3	1.6	8.2
Federal	474.8	-6.9	-16.3	6.7	11.9	-5.6	-13.2	6.0	10.7
State and local	805.7	5.2	2.9	-1.8	13.1	2.7	1.5	-9	6.8
Addendum: Final sales of domestic product	6,886.4	59.0	22.8	51.0	71.2	3.6	1.4	3.0	4.3

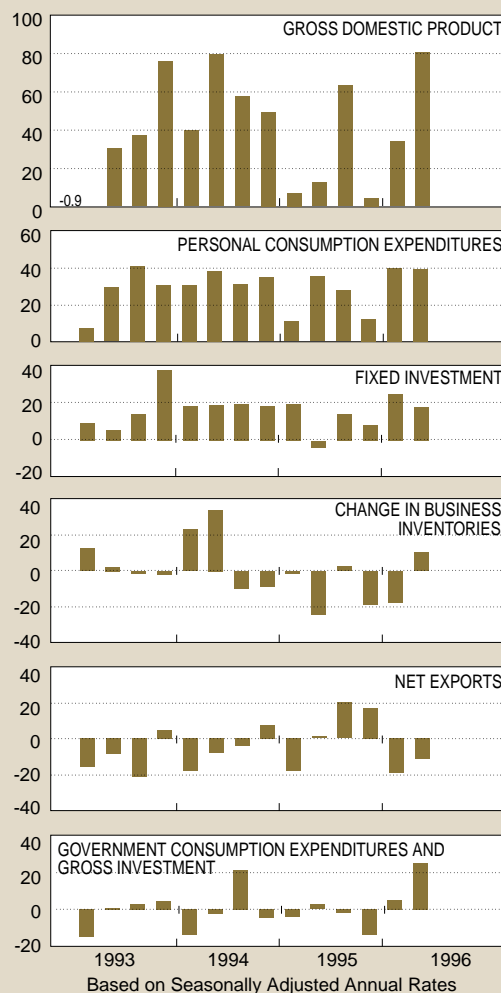
NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2 and 1.6. Percent changes in major aggregates are found in NIPA table 8.1.

The 4.8-percent increase in real GDP was the largest increase in 2 years; real GDP increased 2.0 percent in the first quarter. The large step-up was primarily accounted for by an upturn in inventory investment and by a pickup in government spending, but residential investment, exports, and imports also contributed. Personal consumption expenditures increased about the

CHART 1

Real Product: Change from Preceding Quarter

Billion chained (1992) \$



U.S. Department of Commerce, Bureau of Economic Analysis

same rate in both quarters, and nonresidential fixed investment increased less in the second quarter than in the first.

Real gross domestic purchases increased 5.4 percent in the second quarter after increasing 3.0 percent in the first. Unlike GDP, gross domestic purchases includes imports and excludes exports; thus, it represents purchases by U.S. residents regardless of where the goods and services were produced. In the second quarter, exports of goods and services increased more than in the first quarter, while imports increased less than in the first quarter.

The price index for gross domestic purchases increased 2.1 percent in the second quarter after increasing 2.3 percent in the first. The price index for GDP increased 2.2 percent in the second quarter after increasing 2.3 percent in the first.

Personal consumption expenditures

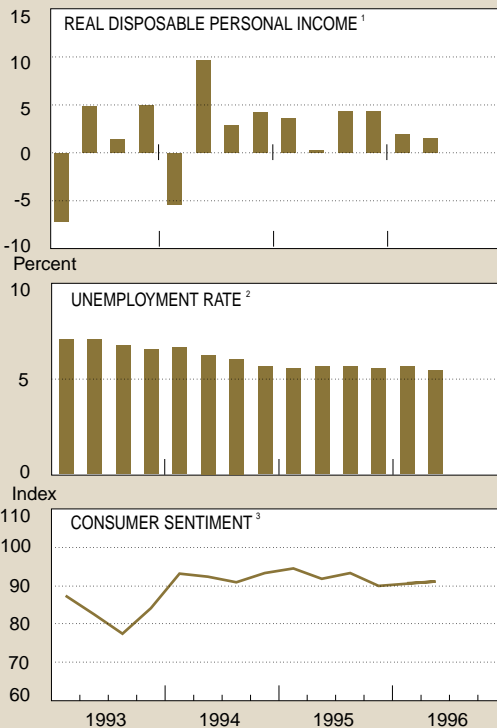
Real personal consumption expenditures (PCE) increased 3.4 percent in the second quarter after increasing 3.5 percent in the first (table 2). A slowdown in the growth of spending for non-durable goods was nearly offset by a pickup in the growth of spending for durable goods. Services increased about the same rate in both quarters.

Factors usually considered in analyses of PCE were mixed in the second quarter (chart 2). The unemployment rate fell to 5.4 percent from

CHART 2

Selected Factors Affecting Consumer Spending

Percent change



1. Disposable personal income in chained (1992) dollars: seasonally adjusted annual rates.
2. All civilian workers, seasonally adjusted.
Data: U.S. Department of Labor, Bureau of Labor Statistics
3. Data: University of Michigan's Survey Research Center.
U.S. Department of Commerce, Bureau of Economic Analysis

Table 2.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1996	1995	1996			1995		1996	
	II	III	IV	I	II	III	IV	I	II
Personal consumption expenditures	4,688.1	27.4	12.1	39.7	39.0	2.4	1.1	3.5	3.4
Durable goods	616.1	12.9	-1.6	11.7	16.9	9.3	-1.0	8.2	11.8
Motor vehicles and parts	226.4	5.5	-5.8	3.6	2.2	10.3	-9.8	6.6	4.0
Of which:									
New autos	75.2	-7	3.2	-2.3	-2.7	-3.7	17.4	-10.6	-13.3
New trucks	50.7	-4	1.4	.7	-1.8	-2.6	11.6	4.8	-12.6
Furniture and household equipment	276.1	7.0	5.8	4.2	12.0	11.8	9.4	6.6	19.6
Other	117.3	.6	-6	4.0	3.4	2.2	-2.2	15.1	12.5
Nondurable goods	1,442.0	1.8	-1.5	12.9	5.9	.5	-4	3.7	1.6
Food	705.8	2.3	-6	6.2	-3.4	1.3	-3	3.5	-1.9
Clothing and shoes	269.1	.9	-1.5	5.2	6.6	1.4	-2.4	8.4	10.4
Gasoline and oil	114.4	-1.1	1.2	-1.1	1.8	-4.0	4.5	-3.8	6.4
Fuel oil and coal	10.2	-6	.7	0	-5	-21.2	30.1	.8	-18.6
Other	343.4	.1	-1.2	2.8	1.8	.2	-1.4	3.3	2.2
Services	2,631.2	13.0	14.7	15.4	16.5	2.0	2.3	2.4	2.5
Housing	691.7	3.2	3.1	2.7	2.7	1.9	1.8	1.6	1.6
Household operation	285.9	3.6	-1.9	1.9	5.1	5.3	-2.6	2.7	7.4
Electricity and gas	118.2	2.9	-3.8	2.0	2.8	10.5	-12.2	7.3	9.8
Other household operation	167.6	.7	1.8	-1	2.3	1.8	4.4	-3	5.9
Transportation	183.4	.5	3.6	2.5	.9	1.2	8.3	5.6	2.0
Medical care	695.4	4.7	5.2	-1	4.3	2.8	3.1	-1	2.5
Other	775.3	1.0	4.6	8.8	3.5	.5	2.4	4.7	1.8

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 2.3, 8.5 (new autos), and 8.7 (new trucks). Percent changes in major aggregates are found in NIPA table 8.1.

5.6 percent. Real disposable personal income increased less in the second quarter than in the first—1.6 percent, compared with 2.0 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased for the second consecutive quarter but remained below the levels posted in most of 1994 and 1995.

Expenditures for durable goods jumped 11.8 percent after increasing 8.2 percent. The acceleration was more than accounted for by furniture and household equipment—largely consumer electronics. "Other" durable goods and motor vehicles both increased less in the second quarter than in the first. In "other" durable goods, a step-up in sporting equipment was more than offset by a slowdown in jewelry and watches. In motor vehicles, new trucks decreased in the second quarter after increasing in the first, and new autos decreased more in the second quarter than in the first.

Expenditures for nondurable goods increased 1.6 percent after increasing 3.7 percent. The slowdown was more than accounted for by expenditures for food, which declined after increasing; also contributing to the slowdown were "other" nondurable goods, which increased less in the second quarter than in the first, and fuel and coal, which turned down. Gasoline and oil turned up, and clothing and shoes increased more in the second quarter than in the first.

Expenditures for services increased 2.5 percent in the second quarter, about the same rate as in the first. An upturn in medical care and a step-up in household operation were offset by slowdowns in "other" services and in transportation. The step-up in household operation reflected an upturn in "other household operation" and an even larger increase in electricity than in the first quarter, reflecting an increase in the demand for heating in response to colder-than-normal temperatures. In "other" services, step-ups in recreational services and education were more than offset by a downturn in personal business services—primarily in brokerage and investment counseling. Housing services increased the same in both quarters.

Nonresidential fixed investment

Real private nonresidential fixed investment increased 4.0 percent in the second quarter after increasing 11.6 percent in the first (table 3). Both producers' durable equipment (PDE) and structures contributed to the slowdown.

Factors that affect investment spending have been mixed recently. On the one hand, real final sales of domestic product increased 3.1 percent over the past four quarters, and domestic corporate profits increased 19.3 percent. On the other hand, the capacity utilization rate in manufacturing decreased about 1 percentage point over the same four quarters. Long-term interest rates have shown little trend over the period; for example,

Table 3.—Real Gross Private Domestic Fixed Investment

(Seasonally adjusted at annual rates)

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	1996		1995		1996	1995		1996	
	II	III	IV	I	II	III	IV	I	II
Gross private domestic fixed investment	1,031.2	14.3	8.5	24.8	17.9	6.1	3.5	10.4	7.3
Nonresidential	750.9	8.5	4.3	20.2	7.4	4.9	2.5	11.6	4.0
Structures	186.1	2.8	.4	3.4	-.5	6.3	1.0	7.7	-1.2
Nonresidential buildings, including farm	130.7	2.4	1.1	1.1	-.7	7.8	3.5	3.3	-2.1
Utilities	37.1	1.0	.2	.4	.7	12.7	2.2	4.4	7.7
Mining exploration, shafts, and wells	12.8	.3	-.5	2.3	0	9.0	-17.0	119.4	1.7
Other	5.3	-1.0	-.4	-.3	-.6	-42.7	-21.8	-16.2	-36.4
Producers' durable equipment	566.5	5.7	4.0	16.9	8.2	4.3	3.0	13.1	6.0
Information processing and related equipment	233.7	1.7	13.0	11.1	8.2	3.5	28.5	22.3	15.5
Computers and peripheral equipment	125.5	3.7	13.7	11.6	8.3	17.9	74.3	51.8	31.3
Other	119.9	-1.1	2.2	1.9	1.8	-3.5	7.9	6.7	5.9
Industrial equipment	120.6	-1.8	-1.2	2.4	2.8	-5.8	-4.1	8.4	9.9
Transportation and related equipment	114.5	5.4	-4.9	2.1	-3.0	20.0	-15.4	7.7	-9.9
Of which: Motor vehicles	104.2	6.6	-6.5	1.3	1.9	29.3	-22.2	5.1	7.6
Other	102.4	.4	-1.3	2.1	.9	1.5	-5.0	8.7	3.5
Residential	281.3	5.7	4.1	4.8	10.2	9.2	6.4	7.4	15.9
Single-family structures	137.4	2.8	3.3	3.4	4.9	9.4	10.6	11.0	15.7
Multifamily structures	21.0	.4	.7	.7	1.8	10.2	15.6	16.7	42.2
Other	123.5	2.5	.2	.6	3.5	8.9	.6	2.0	12.3

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 5.5, 8.5 (new and used autos), and 8.7 (new trucks). Percent changes in major aggregates are found in NIPA table 8.1.

the yield on high-grade corporate bonds, at 7.89 percent, was only 16 basis points higher at the end of the period than at the beginning.

PDE increased 6.0 percent after increasing 13.1 percent. Three of the four major components of PDE contributed to the slowdown: Information processing equipment—especially computers and peripheral equipment—increased less than in the first quarter; transportation equipment turned down, reflecting a downturn in aircraft; and “other” PDE increased less than in the first quarter. In contrast, industrial equipment increased somewhat more than in the first quarter.

Structures decreased 1.2 percent after increasing 7.7 percent. Mining exploration, shafts, and wells was little changed from the first quarter, when it posted its biggest increase since 1987; nonresidential buildings turned down, and “other” structures decreased more than in the first quarter. In contrast, construction by utilities increased somewhat more in the second quarter than in the first.

Residential investment

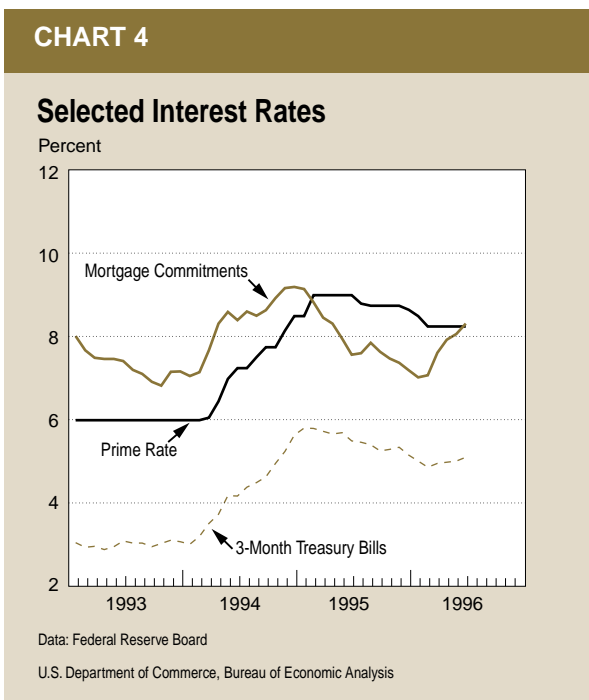
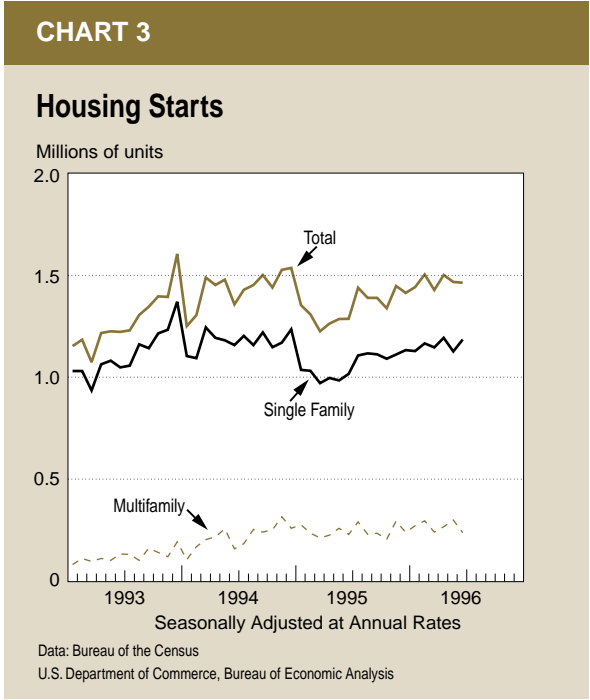
Real residential investment increased 15.9 percent in the second quarter, more than double the 7.4-percent increase in the first (table 3). All three major components—single-family structures, multifamily structures, and “other” residential investment—contributed to the step-up.

Single-family structures increased 15.7 percent after increasing 11.0 percent. Investment in single-family structures, which measures value of construction put-in-place rather than the value of home sales, make up about half of residential investment. Housing starts are a major contributor in determining single-family construction: Single-family construction in a quarter largely reflects single-family housing starts in the first 2 months of that quarter and the last 2 months of the preceding quarter. Therefore, construction in the second quarter of 1996 reflected starts that occurred in February through May. For that period, housing starts averaged 1.17 million units, up from an average of 1.15 million units in November through February, the 4 months reflected in the first-quarter construction estimates (chart 3).

Multifamily construction increased 42.2 percent after increasing 16.7 percent.

“Other” residential investment increased 12.3 percent after increasing 2.0 percent.² The step-up was accounted for by brokers’ commissions, which increased nearly three times faster in the second quarter than in the first, and by mobile homes, which turned up in the second quarter. The large second-quarter increase in brokers’ commissions, which make up about one-eighth of total residential investment, reflected an increase in sales of new and existing homes. Sales increased 205,000 units (seasonally adjusted an-

2. “Other” residential investment includes improvements, new mobile home sales, brokers’ commissions on house sales, and residential equipment.



nual rate) despite an increase in interest rates for 30-year fixed-rate mortgages to 8.11 percent in the second quarter from 7.24 percent in the first (chart 4); the rate had been trending down for the preceding five quarters.

Inventory investment

Real inventory investment—that is, the change in business inventories—increased \$10.2 billion in the second quarter, as business added \$7.2 billion to inventories after reducing them \$3.0 billion in the first quarter. In contrast, inventory investment had decreased \$17.6 billion in the first quarter (table 4). The upswing in inventory investment largely reflected an upturn in nonfarm inventories, which was more than accounted for by inventories of retail motor vehicle dealers.

Nonfarm inventories increased \$11.9 billion in the second quarter after increasing \$2.9 billion in the first. The second-quarter step-up was more than accounted for by retail trade inventories, which increased more in the second quarter than in the first. Wholesale trade and “other” inventories increased less than in the first quarter.

Retail trade inventories increased in the second quarter after a substantial drop in the first. The second-quarter upturn was largely accounted for by inventories of motor vehicle dealers, but other durable goods and nondurable goods also contributed. Inventories of motor vehicle dealers edged up slightly after dropping sharply in the first quarter; the drop reflected a reduction in output that was partly due to a strike by workers of a motor vehicle manufacturer. Other durable goods, particularly auto and home supply and lumber and building materials, increased a little more in the second quarter than in the first, and inventories of nondurable goods decreased less in the second quarter than in the first.

Wholesale trade inventories increased slightly less in the second quarter than in the first. The small step-down was more than accounted for by inventories of durable goods, which increased less than in the first quarter; In contrast, inventories of nondurable goods increased after decreasing; the increase was accounted for by paper products and “other nondurable goods.”

“Other” nonfarm inventories also increased less in the second quarter than in the first.³

Manufacturing inventories decreased in the second quarter after increasing for 13 consecutive quarters. The downturn was accounted for by both durable and nondurable goods; durable goods increased much less in the second quarter than in the first, and nondurable goods decreased much more in the second quarter than in the first.

Farm inventories decreased \$5.2 billion in the second quarter after decreasing \$6.5 billion in the first; the second quarter marked the sixth consecutive quarter of inventory reduction. Inventories of both crops and livestock decreased in the second quarter.

The ratio of real nonfarm business inventories to real final sales of domestic business declined to 2.24 in the second quarter from 2.26 in the first. The inventory-sales ratio in which final sales are limited to goods and structures declined to 4.01, the lowest level in 8 years, from 4.06.

Exports and imports

Real exports of goods and services increased 4.8 percent in the second quarter after increasing 1.8 percent in the first (table 5). Real imports of goods and services increased 9.4 percent after increasing 10.6 percent.

3. “Other” nonfarm inventories includes inventories held by mining, construction, public utilities, transportation, communication, and service industries.

Table 4.—Change in Real Business Inventories

[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1995			1996		1995		1996	
	II	III	IV	I	II	III	IV	I	II
Change in business inventories	30.5	33.0	14.6	-3.0	7.2	2.5	-18.4	-17.6	10.2
Farm	-3.9	-6.4	-4.7	-6.5	-5.2	-2.5	1.7	-1.8	1.3
Nonfarm	33.7	38.6	19.0	2.9	11.9	4.9	-19.6	-16.1	9.0
Manufacturing	11.3	16.3	11.2	12.0	-4.3	5.0	-5.1	.8	-16.3
Wholesale trade	15.3	13.2	4.4	6.4	5.7	-2.1	-8.8	2.0	-7
Retail trade	5.6	3.0	-7.1	-21.7	5.4	-2.6	-10.1	-14.6	27.1
Of which: Motor vehicle dealers	-5	-6.2	.4	-23.6	.5	-5.7	6.6	-24.0	24.1
Other	1.5	6.0	10.6	6.1	5.1	4.5	4.6	-4.5	-1.0

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 5.11.

Exports of goods increased 7.0 percent after increasing 1.5 percent. A downturn in exports of agricultural goods was more than offset by an upturn in exports of nonagricultural goods that largely reflected a step-up in exports of nonautomotive capital goods. Among capital goods, exports of civilian aircraft increased substantially more in the second quarter than in the first, and exports of capital goods excluding aircraft and computers decreased substantially less than in the first quarter; in contrast, exports of computers slowed. Exports of services turned down.

Imports of goods increased 11.6 percent after increasing 10.2 percent. The step-up was more than accounted for by a sharp upturn in petroleum imports; imports of nonpetroleum goods slowed as imports of nonautomotive capital goods turned down. Among capital goods,

imports of computers slowed, and imports of "other" capital goods turned down; in contrast, imports of civilian aircraft increased more in the second quarter than in the first. Imports of services turned down; much of the downturn was accounted for by travel abroad by U.S. residents, which decreased after increasing.

Government spending

Real government consumption expenditures and gross investment increased 8.2 percent in the second quarter after increasing 1.6 percent in the first (table 6). Federal Government spending increased more than in the first quarter, and State and local government spending turned up sharply.

Federal defense spending increased 11.6 percent after increasing 4.1 percent. Consumption

Table 5.—Real Net Exports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1995		1996	
	1996	1995	1996						
	II	III	IV	I	II	III	IV	I	II
Exports of goods and services	816.2	19.8	20.1	3.6	9.5	10.7	10.7	1.8	4.8
Goods	601.0	10.5	20.6	2.1	10.1	7.8	15.3	1.5	7.0
Agricultural goods	45.5	1.9	-6	1.1	-5.0	16.5	-4.9	9.3	-33.8
Nonagricultural goods	556.5	8.5	21.5	.9	15.8	6.9	17.7	.7	12.2
Services	216.3	9.0	-1	1.4	-4	18.7	-3	2.7	-7
Imports of goods and services	931.4	-1	3.5	22.7	20.7	0	1.6	10.6	9.4
Goods	789.7	-2.1	4.4	18.4	21.3	-1.1	2.4	10.2	11.6
Petroleum and products	62.0	3.0	-2.9	-3.5	6.8	22.0	-17.2	-22.2	60.0
Nonpetroleum products	726.2	-4.8	6.9	21.5	14.9	-2.7	4.1	13.0	8.6
Services	142.3	2.0	-9	4.3	-5	5.8	-2.4	13.0	-1.3
Addendum: Net exports of goods and services	-115.2	19.8	16.7	-19.1	-11.2	.....	.....	.....	.....

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 4.4. Percent changes in major aggregates are found in NIPA table 8.1.

Table 6.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1995		1996	
	1996	1995	1996						
	II	III	IV	I	II	III	IV	I	II
Government consumption expenditures and gross investment	1,279.8	-1.7	-13.8	5.1	25.1	-0.6	-4.3	1.6	8.2
Federal	474.8	-6.9	-16.3	6.7	11.9	-5.6	-13.2	6.0	10.7
National defense	320.5	-6.4	-10.3	3.1	8.6	-7.6	-12.3	4.1	11.6
Consumption expenditures	280.7	-3.9	-3.8	-3.5	9.1	-5.4	-5.3	-5.0	14.0
Gross investment	40.0	-2.5	-6.5	6.5	-3	-21.1	-50.6	102.6	-3.6
Nondefense	153.9	-4	-6.1	3.6	3.3	-1.3	-14.8	10.1	9.0
Consumption expenditures	134.9	.1	-6.2	3.0	3.3	.3	-17.2	9.9	10.4
Gross investment	18.9	-6	.3	.5	0	-13.0	6.8	12.1	-1.3
State and local	805.7	5.2	2.9	-1.8	13.1	2.7	1.5	-9	6.8
Consumption expenditures	649.7	2.6	1.6	-1.2	8.8	1.6	1.0	-8	5.6
Gross investment	156.1	2.6	1.3	-6	4.4	7.2	3.3	-1.5	12.0

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 3.8B. Percent changes in major aggregates are found in NIPA table 8.1.

expenditures increased substantially after decreasing; the second-quarter increase was largely accounted for by durable goods, particularly aircraft parts, and by services other than employee compensation. Investment decreased slightly after increasing substantially.

Federal nondefense spending increased 9.0 percent after increasing 10.1 percent. The second-quarter increase was accounted for by consumption expenditures, primarily for employee compensation.

State and local government spending increased 6.8 percent after decreasing 0.9 percent. The upswing was attributable to upturns in employee compensation, which reflected work made up in the second quarter by education employees for work that had been lost in the first quarter as a result of the Blizzard of 1996, and in investment in structures.⁴

Revisions

As noted earlier, the preliminary estimate of a 4.8-percent increase in real GDP in the second quarter is 0.6 percentage point higher than the advance estimate (table 7); for 1981–92, the average revision, without regard to sign, from the advance estimate of real GDP to the preliminary estimate was 0.6 percentage point. The preliminary estimate of the increase in the price index for gross domestic purchases is 2.1 percent in the second quarter, 0.1 percentage point higher than the advance estimate.

The upward revision to real GDP was more than accounted for by upward revisions to net exports and to nonresidential fixed investment.

The upward revision to net exports reflected a much larger downward revision to imports than to exports. The downward revision to imports reflected revisions both to goods, based on new Census Bureau data for June, and to services, based largely on new source data for June. The downward revision to exports reflected revisions to services, based on new source data for June.

The upward revision to nonresidential fixed investment mainly reflected newly available Census Bureau data for the value of construction put in place (used to estimate structures) for June and revised Census Bureau data for manufacturers' shipments of machinery and equipment (used to estimate PDE) for June.

4. BEA estimated the first-quarter loss of real government output due to the shutdowns associated with the January 8 blizzard at \$2.1 billion for the Federal Government and \$4.0 billion for State and local governments, and BEA estimated the second-quarter addition for State and local government output as a result of days worked by education employees to make up for days lost to the blizzard at \$1.8 billion.

The upward revision to government spending was primarily in Federal defense spending and mainly reflected the incorporation of detailed Treasury Department data for June and detailed Defense Department data for the quarter. These detailed data are used to adjust the timing and coverage of other source data to make them conform to the Federal defense spending concepts and definitions used in the NIPA's and to fill gaps in their coverage. Complete detailed data are generally not available for the advanced estimate.

The downward revision to consumer spending primarily reflected revised Census Bureau data on retail trade sales for May and June. The downward revision to the change in business inventories was more than accounted for

**Table 7.—Revisions to Real Gross Domestic Product and Prices,
Second Quarter 1996**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Prelimi- nary estimate	Percent- age points	Billions of chained (1992) dollars
Gross domestic product	4.2	4.8	0.6	9.4
Less: Exports of goods and services	5.2	4.8	-.4	-.8
Goods	7.0	7.0	0	0
Services .....	.8	-.7	-1.5	-.8
Plus: Imports of goods and services	12.9	9.4	-3.5	-7.3
Goods	14.6	11.6	-3.0	-5.3
Services	4.2	-1.3	-5.5	-2.0
Equals: Gross domestic purchases	5.2	5.4	.2	3.2
Personal consumption expenditures	3.7	3.4	-.3	-3.9
Durable goods	14.1	11.8	-2.3	-3.2
Nondurable goods	2.5	1.6	-.9	-3.1
Services	2.2	2.5	.3	2.1
Fixed investment	4.5	7.3	2.8	6.7
Nonresidential .....	.5	4.0	3.5	6.4
Structures	-6.6	-1.2	5.4	2.6
Producers' durable equipment	3.2	6.0	2.8	3.7
Residential	15.2	15.9	.7	.5
Change in business inventories .....	.....	.....	.....	-3.1
Nonfarm .....	.....	.....	.....	-3.6
Farm .....	.....	.....	.....	.7
Government consumption expenditures and gross investment	7.1	8.2	1.1	3.5
Federal	8.4	10.7	2.3	2.4
National defense	8.0	11.6	3.6	2.6
Nondefense	9.3	9.0	-.3	-.1
State and local	6.3	6.8	.5	.9
Addenda:				
Final sales of domestic product	3.5	4.3	.8	12.2
Gross domestic purchases price index (chain-type weights) ¹	2.0	2.1	.1	.....
GDP price index (chain-type weights) ¹	2.1	2.2	.1	.....

1. Based on chained (1992) weights.

NOTE.—Preliminary estimates for the second quarter of 1996 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Revised retail sales for May and June, consumers' share of new car purchases for June, and consumers' share of new truck purchases for June.

Nonresidential fixed investment: Construction put in place for April and May (revised) and June, manufacturers' shipments of machinery and equipment for May and June (revised), and exports and imports of machinery and equipment for May (revised) and June.

Residential fixed investment: Construction put in place for April and May (revised) and June.

Change in business inventories: Manufacturing and trade inventories for May (revised) and June.

Exports and imports of goods and services: Goods exports and imports for May (revised) and June; services exports and imports for June.

Government consumption expenditures and gross investment: State and local construction put in place for April and May (revised) and June.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for May and June.

GDP prices: Detailed merchandise export and import price indexes for April through June (revised), values and quantities of petroleum imports for May (revised) and June, and housing prices for the second quarter.

by revisions to nonfarm inventories and reflected newly available Census Bureau data on the book value of manufacturing and trade inventories for June.

The increase in real disposable personal income was revised up 0.1 percentage point to 1.6 percent; current-dollar personal income was revised up slightly, and personal tax and nontax payments was revised down slightly. The personal saving rate was revised up 0.1 percentage point to 4.4 percent.

Corporate Profits

Profits from current production increased \$8.7 billion in the second quarter after increasing \$33.3 billion in the first (table 8).⁵

Profits from domestic operations increased \$14.5 billion after increasing \$31.9 billion. Profits of financial corporations increased slightly in the second quarter after increasing sharply in the first. Profits of nonfinancial corporations

5. Profits from current production are estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; they are shown in NIPA tables 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

Table 8.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1996	1996	
	II	I	II
Billions of dollars			
Profits from current production	653.8	33.3	8.7
Domestic industries	576.5	31.9	14.5
Financial	142.8	15.9	1.1
Nonfinancial	433.7	16.0	13.4
Rest of the world	77.3	1.5	-5.9
IVA	-13.0	-8.6	4.4
CCAdj	22.7	3.9	2.3
Profits before tax	644.0	38.0	1.8
Profits tax liability	236.7	14.7	3.3
Profits after tax	407.4	23.3	-1.4
Cash flow from current production	644.6	15.4	7.2
Corporate profits with IVA	631.0	29.5	6.2
Domestic industries	553.8	27.9	12.2
Financial	135.8	15.6	.9
Nonfinancial	418.0	12.3	11.3
Rest of the world	77.3	1.5	-5.9
Receipts (inflows)	121.1	8.3	-1.1
Payments (outflows)	43.8	6.7	4.8
Dollars			
Unit price, costs, and profits of domestic non-financial corporations:			
Unit price	1.066	0.005	0.004
Unit labor cost .....	.705	.003	.003
Unit nonlabor cost .....	.248	-.002	0
Unit profits from current production .....	.113	.003	.002

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

increased about the same amount in both quarters; both real output and unit profits increased in both quarters. The increases in unit profits reflected higher unit prices and lower unit non-labor costs that more than offset an increase in unit labor costs. Profits from the rest of the world turned down, decreasing \$5.9 billion after increasing \$1.5 billion.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$7.2 billion after increasing \$15.4 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased to 83.2 percent from 82.9 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of this decade but are substantially higher than the levels typically posted in the 1980's.

Industry profits.—Industry profits—corporate profits with inventory valuation adjustment—increased \$6.2 billion in the second quarter after increasing \$29.5 billion in the first.⁶ The slowdown mainly reflected a sharp deceleration in profits of financial corporations and a downturn in profits from the rest of the world. For financial corporations, profits had rebounded in the first quarter from a fourth-quarter level that had been depressed by claims arising from Hurricane Opal. For profits from the rest of the world—that is, receipts of profits from foreign affiliates of U.S. companies less payments of profits by U.S. affiliates of foreign companies—preliminary and incomplete information suggests that the second-quarter downturn was more than accounted for by a downturn in receipts.

For nonfinancial corporations, manufacturing profits increased about as much in the second quarter as in the first; a downturn in profits of wholesale trade was more than offset by an upturn in profits of the transportation and utilities group.

Related measures.—Profits before tax (PBT) increased \$1.8 billion in the second quarter after increasing \$38.0 billion in the first. The difference between the \$36.2 billion slowdown in PBT and the \$24.6 billion slowdown in profits from current production was more than accounted for by inventory profits (especially in petroleum

6. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in NIPA table 6.16C. Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

refining), which are represented in the NIPA's by the inventory valuation adjustment (with the sign reversed).

Government Sector

The fiscal position of the government sector improved in the second quarter of 1996, as the combined current deficit of the Federal Government and State and local governments decreased \$34.2 billion, to \$30.1 billion (table 9). The improvement was attributable to a decrease in the Federal Government current deficit and to an increase in the State and local government current surplus.

Federal

The Federal Government current deficit decreased \$24.2 billion, to \$131.0 billion, in the second quarter after increasing \$0.7 billion in the first. The Federal current deficit is the smallest since the third quarter of 1989.

Receipts.—Receipts increased \$49.4 billion in the second quarter after increasing \$28.4 billion in the first. The acceleration was more than accounted for by personal tax and nontax receipts.

Personal tax and nontax receipts increased \$38.5 billion after increasing \$16.3 billion. The acceleration was attributable to income taxes. Estimated income tax payments less refunds increased \$22.5 billion after increasing \$13.1 billion; this acceleration reflected provisions of the Omnibus Budget Reconciliation Act of 1993 that allowed certain retroactive taxes to be paid in three annual installments, the last of which was due in April 1996. Withheld income taxes increased \$13.3 billion after increasing \$3.6 billion; annual indexation for inflation on the 1996 withholding tables held down the first-quarter increase, and an acceleration in wages and salaries boosted the second-quarter increase.

Indirect business tax and nontax accruals decreased \$1.2 billion after decreasing \$6.9 billion. The decreases were largely attributable to air transport excise taxes, which decreased \$0.9 billion after decreasing \$5.9 billion. These taxes expired at the end of 1995 as a result of the Federal budget impasse in December, but an additional \$0.9 billion in taxes was recorded in the NIPA's in the first quarter because some tickets were purchased before December 31 for flights taken in the first quarter.

Contributions for social insurance increased \$9.4 billion after increasing \$6.7 billion. The

acceleration was primarily attributable to contributions for social security (old-age, survivors, disability, and health insurance), which increased \$8.8 billion after increasing \$6.0 billion; these increases reflect the pattern of wages and salaries, and in the first quarter, an increase in the social security taxable wage base.

Corporate profits tax accruals increased \$2.8 billion after increasing \$12.1 billion. The deceleration reflected the pattern of corporate profits.

Table 9.—Government Sector Receipts and Current Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter					
	1996: II	1995				1996	
		I	II	III	IV	I	II
Government sector							
Receipts	2,399.0	40.0	42.2	17.6	14.3	40.0	60.5
Current expenditures	2,429.1	23.1	29.4	20.6	16.2	37.7	26.4
Current surplus or deficit(–)	–30.1	16.9	12.8	–3.0	–1.8	2.1	34.2
Social insurance funds	111.6	–5.1	–4.0	1.9	.9	–8.4	1.7
Other	–141.7	22.0	16.8	–4.9	–2.7	10.6	32.4
Federal Government							
Receipts	1,572.5	33.0	33.9	3.4	8.1	28.4	49.4
Personal tax and nontax receipts	678.1	20.1	29.8	–7.1	6.0	16.3	38.5
Corporate profits tax accruals	199.2	3.1	–2.4	8.4	–4.8	12.1	2.8
Indirect business tax and nontax accruals	83.2	–1.5	1.8	–5.1	2.9	–6.9	–1.2
Contributions for social insurance	612.0	11.3	4.7	7.2	4.1	6.7	9.4
Current expenditures	1,703.5	15.7	21.1	1.3	4.3	29.0	25.2
Consumption expenditures	464.7	–5	1.3	–2.5	–2.2	2.2	11.1
National defense	308.3	–1.9	2.3	–3.9	–1.3	–1.4	9.6
Nondefense	156.4	1.4	–1.0	1.4	–9	3.6	1.5
Transfer payments (net)	757.6	7.3	6.6	9.1	6.7	25.3	1.4
To persons	746.1	21.5	9.0	7.8	6.3	17.9	8.9
To the rest of the world	11.5	–14.2	–2.4	1.4	.3	7.4	–7.5
Grants-in-aid to State and local governments	219.3	8.9	5.5	–7.5	–5	4.3	11.7
Net interest paid	230.8	6.3	8.0	3.1	1.6	–3.4	.3
Subsidies less current surplus of government enter- prises	31.1	–6.3	–3	–9	–1.2	.5	.7
Subsidies	31.4	–3	–8	–1.2	–1.3	0	.1
Of which: Agricultural subsidies	5.6	–4	–6	–8	–7	.3	.2
Less: Current surplus of government enterprises .....	.4	6.0	–5	–2	–2	–1.0	–1.0
Less: Wage accruals less disbursements	0	0	0	0	0	0	0
Current surplus or deficit (–)	–131.0	17.3	12.8	2.0	4.0	–7	24.2
Social insurance funds	55.2	–4.0	–3.3	1.9	1.4	–7.7	2.2
Other	–186.2	21.3	16.1	.1	2.6	6.9	22.1
State and local governments							
Receipts	1,045.8	15.9	13.8	6.7	5.7	15.9	22.8
Personal tax and nontax receipts	189.2	1.9	1.5	4.2	2.6	1.5	3.9
Corporate profits tax accruals	37.5	.6	–7	1.9	–1.0	2.5	.6
Indirect business tax and nontax accruals	525.6	4.0	7.0	7.6	3.9	6.9	5.9
Contributions for social insurance	74.2	.5	.5	.6	.6	.6	.8
Federal grants-in-aid	219.3	8.9	5.5	–7.5	–5	4.3	11.7
Current expenditures	944.8	16.3	13.8	11.7	11.5	13.0	12.8
Consumption expenditures	710.2	10.2	8.0	6.1	5.7	9.4	8.9
Transfer payments to persons	306.8	6.4	5.4	5.3	5.1	3.5	3.9
Net interest paid	–45.1	.6	.8	.7	.6	.7	.6
Less: Dividends received by government	13.7	.4	.2	.3	.3	.3	.4
Subsidies less current surplus of government enter- prises	–13.3	–5	–2	0	.2	–1	–2
Subsidies .....	.4	0	0	0	0	0	0
Less: Current surplus of government enterprises	13.6	.5	.2	0	–2	.1	.1
Less: Wage accruals less disbursements	0	0	0	0	0	0	0
Current surplus or deficit (–)	101.0	–4	0	–5.0	–5.8	2.9	10.0
Social insurance funds	56.4	–1.1	–7	0	–5	–8	–4
Other	44.5	.7	.7	–5.0	–5.3	3.6	10.4

NOTE.—Dollar levels are found in NIPA tables 3.1, 3.2, and 3.3.

Current expenditures.—Current expenditures increased \$25.2 billion in the second quarter after increasing \$29.0 billion in the first. The deceleration was more than accounted for by transfer payments.

Transfer payments (net) increased \$1.4 billion after increasing \$25.3 billion; the slowdown was due to a downturn in payments to the rest of the world and to a deceleration in payments to persons. Transfer payments to the rest of the world decreased \$7.5 billion after increasing \$7.4 billion; the increase in the first quarter was more than accounted for by \$9.6 billion (annual rate) in payments to Israel to finance military purchases. Transfer payments to persons increased \$8.9 billion after increasing \$17.9 billion. Most of this deceleration was accounted for by social security benefits (old-age, survivors, and disability insurance), which increased \$2.3 billion after increasing \$9.8 billion; the first-quarter increase reflected a 2.6-percent cost-of-living adjustment that went into effect in January. In addition, the first-quarter growth in transfer payments to persons was boosted by a \$2.9 billion increase in earned income tax credits.

Consumption expenditures increased \$11.1 billion after increasing \$2.2 billion. Expenditures for national defense increased \$9.6 billion after decreasing \$1.4 billion. The upturn was mostly accounted for by a turnaround in defense services, which increased \$5.7 billion after decreasing \$3.6 billion. Within services, upturns in installation support and personnel support and an acceleration in research and development were partly offset by downturns in compensation of employees. Compensation decreased \$1.1 billion after increasing \$1.6 billion, reflecting the pattern of military employment and Department of Defense civilian employment and a military pay raise that went into effect in January. Nondefense consumption expenditures increased \$1.5 billion after increasing \$3.6 billion; the deceleration re-

flected a Federal civilian pay raise that went into effect in January.

Grants-in-aid to State and local governments increased \$11.7 billion after increasing \$4.3 billion. The acceleration was more than accounted for by grants for medicaid, which increased \$10.6 billion after decreasing \$0.4 billion.

Net interest paid increased \$0.3 billion after decreasing \$3.4 billion. The upturn was accounted for by net interest paid to the rest of the world, which increased \$3.2 billion after decreasing \$0.5 billion.

State and local

The State and local government current surplus increased \$10.0 billion, to \$101.0 billion, in the second quarter after increasing \$2.9 billion in the first. The acceleration was attributable to receipts.

Receipts increased \$22.8 billion after increasing \$15.9 billion. The acceleration was more than accounted for by Federal grants-in-aid. Personal tax and nontax receipts increased \$3.9 billion after increasing \$1.5 billion. The acceleration was attributable to income taxes: Annual indexation for inflation in several States held down the increase in the first quarter, and an acceleration in wages and salaries boosted income taxes in the second. Corporate profits tax accruals increased \$0.6 billion after increasing \$2.5 billion, reflecting the deceleration in corporate profits. Indirect business tax and nontax accruals increased \$5.9 billion after increasing \$6.9 billion; sales taxes and other tax and nontax accruals contributed to the deceleration.

Current expenditures increased \$12.8 billion after increasing \$13.0 billion. Consumption expenditures increased \$8.9 billion after increasing \$9.4 billion; the deceleration was mostly attributable to services other than compensation and to consumption of general government fixed capital. Transfer payments to persons increased \$3.9 billion after increasing \$3.5 billion. 